

DOCKETED

Docket Number:	18-IEPR-01
Project Title:	2018 Integrated Energy Policy Report Update
TN #:	224126
Document Title:	SCE Comments on Green Book En Banc
Description:	N/A
Filer:	System
Organization:	SCE
Submitter Role:	Public
Submission Date:	7/11/2018 4:23:01 PM
Docketed Date:	7/11/2018

Comment Received From: David LeBlond
Submitted On: 7/11/2018
Docket Number: 18-IEPR-01

SCE Comments on Green Book En Banc

Comments of Southern California Edison on June 22, 2018 En Banc on Customer Choice.

Additional submitted attachment is included below.

***Comments of Southern California Edison Company
(U 338-E) on the June 22, 2018 En Banc on Customer
Choice***

**Comments of Southern California Edison Company (U 338-E) on the
Draft Green Book
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I. INTRODUCTION

Southern California Edison Company (SCE) respectfully submits these comments on the California Public Utilities Commission's (CPUC or Commission) En Banc on the Draft Green Book (En Banc), which was held on June 22, 2018. The purpose of the En Banc was to discuss the draft report entitled *California Customer Choice: An Evaluation of Regulatory Framework Options for an Evolving Electricity Market* (Draft Green Book), issued May 3, 2018, and the issues raised in the draft report.

SCE was encouraged by the frank discussion at the En Banc about the important issues raised in the Draft Green Book. The dialogue at the En Banc made it clear that many of the challenges identified in the Draft Green Book are real and are happening now. Therefore, it is essential that the Commission and other stakeholders develop and implement solutions promptly that will enable California to achieve its core energy principles of decarbonization, reliability, and affordability in an increasingly disaggregated energy supply framework. In addition, as SCE explained in its comments on the Draft Green Book, the Commission needs to prioritize the Core Principles and develop an action plan that considers this prioritization.

SCE appreciated the discussion at the En Banc about the tensions between increased retail customer choice and the achievement of the Core Principles. Some panelists articulated the need for addressing unfair cost shifts brought about by current rules and the need for better customer protections due to customer behavior being influenced by incomplete, incorrect, or misleading information – SCE wholeheartedly agrees. SCE was disappointed, however, that several parties' comments and responses during the En Banc focused on what they are already doing and are willing to do within the current constructs, rules, and markets, and did not acknowledge the potential challenges of continuing down the current path. Many responses to questions from the CPUC and California Energy Commission (CEC) Commissioners were assertions of implicit alignment with CPUC and CEC objectives without evidence or analysis of long-term impacts of their actions and proposals. Few parties had concrete proposals for how the

state should evolve to achieve its energy policies and what role retail customer choice should play.

SCE appreciates the opportunity to provide these comments on the En Banc. In these comments, SCE reaffirms its vision, discussed at the En Banc, for how the state should transition to achieving reliability while focusing on increased decarbonization at the lowest inter-sector cost possible. In addition, SCE highlights important themes discussed at the En Banc that stakeholders should consider as the state moves to develop solutions to address the issues identified in the Draft Green Book.

II. THE STATE NEEDS A RELIABILITY TRANSITION PLAN

During the panel entitled *Core Principle: Maintaining Reliability*, Colin Cushnie from SCE presented the utility's vision for how the state can continue to deliver reliable electric service in a manner that also achieves the core principles of decarbonization and affordability. His comments at the En Banc are summarized below.

Electric system reliability is not something with which California can afford to experiment. Currently, the state seeks to ensure sufficient Resource Adequacy (RA) by allocating system, local, and flexibility RA requirements on a year-ahead or month-ahead basis to all load-serving entities (LSEs). However, with the proliferation of more LSEs, and absent a centralized approach that assures all LSEs and their customers equitably contribute to the costs of required resources for system reliability, the ability of the CPUC to ensure that LSEs individually and collectively contract for all required resources in a way that ensures statewide reliability while managing customer costs is significantly challenged. For example, historically, the investor-owned utilities (IOUs) could ensure that all needed Local Area resources were procured because load share between capped Direct Access (DA) service and remaining bundled service customers was well-established and the IOUs served approximately 85 percent of the load in their service areas. Today, however, IOUs with large and uncertain Community Choice Aggregation (CCA) loads cannot justify incurring higher costs that are only borne by their remaining bundled service

customers to secure all required Local Area resources to avoid costly backstop procurement by the California Independent System Operator (CAISO). Therefore, SCE recommends that the Commission, the CAISO, and other stakeholders develop a reliability transition plan with two key elements. First, as California continues to seek to reduce reliance on gas-fired generation resources, the state needs a plan that lays out how such a reduction will be achieved in an affordable manner while ensuring electric system reliability is maintained or enhanced. The plan should result in a systematic transition that makes best use of existing and new resources as markets change with increased use of zero-marginal-cost resources and the availability of new forms of flexible resources. SCE recommends this plan be part of the next cycle of the Integrated Resource Plan (IRP) and that it provide a structure in which plants can retire in an orderly manner. The second key element is a determination of what products and standard contract terms replace the gas-fired generation resources for reliability and how they will be procured. SCE recommends that one or more entities be charged with ensuring that all needed Local Area resources are procured sufficiently far in advance to support required plant investment and maintenance, and that all customers pay for their pro rata costs of the reliability procurement. The Commission will need to coordinate with the CAISO to identify the specific resources needed to ensure Local Area reliability. The Commission will also need to ensure that reliability-designated plants operate for the benefit of all customers and that they are not able to extract market power rents, as California experienced during the Energy Crisis.

During the transition from the current state to the future state, SCE recommends the Commission adopt some form of a centralized procurement framework to ensure reliability for resource requirements that are not readily allocated to multiple LSEs. There are several alternatives the state could choose to establish a reliability procurement agent function, including: a new state power agency, a periodic auction for willing market participants, a CAISO-operated centralized capacity market, or continued reliance on the IOUs. SCE is willing, on an interim basis, to serve as a central procurement agent for Local Area reliability in its service area if California elects to follow that path, provided that a durable cost recovery and fair

cost allocation framework (such as the existing Cost Allocation Mechanism) is applied.

Regardless of how California elects to establish the reliability procurement agent function, any centralized procurement agent will need to be assured of full cost recovery and have sufficient financial standing to conduct significant levels of multi-year forward procurement of reliability resources.

California's current path of short-term resource commitments and increased levels of CAISO backstop procurement for needed reliability resources is not sustainable, and continuing on this path risks the reliability and affordability of California's electric system.

III. IMPORTANT CONSIDERATIONS FOR POLICYMAKERS AND STAKEHOLDERS TO CONSIDER

A. Retail Customer Choice is a Tool, Not a Core Principle

As SCE noted in its comments on the Draft Green Book, customer choice is not a Core Principle. Retail choice can be an effective tool to help California achieve its objectives, as long as it is designed and directed to advance the policy objectives. SCE supports retail customer choice and submits that it should be designed to advance California's core principles of reliability, affordability, and decarbonization. At the En Banc, Matt Freedman of The Utility Reform Network (TURN) also made this point on the panel entitled, *Core Principle: Affordability and Consumer Protections (Affordability Panel)*.

As discussed above, Local Area reliability is an example where retail choices challenge the state's ability to achieve its Core Principles because it creates disparate cost allocation and reliability risks. Because Local Area reliability is contingent upon a handful of generally large, location-specific, generation resources, it is not realistic or feasible to expect that multiple, smaller LSEs can effectively bilaterally contract for their load-weighted share of these resources, particularly when more LSEs are coming online and all LSEs have uncertain future load shares. As SCE explained above, the solution to this problem is to have one or more designated procurement entities that procure resources with durable cost recovery and cost allocation

mechanisms to all benefitting customers to meet reliability requirements that cannot be readily allocated to each LSE.

B. A Fragmented Procurement Model Adds Difficulty for the Commission and the State to Implement Policies

Implementing state energy policy through a model of fragmented procurement is more difficult than implementing policy through a small number of larger, regulated entities. This was raised multiple times at the En Banc. During the first panel, *How Much Choice do Californians Want and What is the Best Way to Provide it? What Choices are Missing from the State's Policies?*, in response to a question from Commissioner Peterman about how a CCA advances state policy goals when those goals may not be in the CCA's' direct or immediate economic interests, Dan Skopec from the Sempra Energy Utilities raised the example of water utilities and their lack of participation in helping achieve the Governor's water conservation targets. The Commission has no regulatory oversight of the majority of state water agencies, making it challenging to ensure that water agencies did their part to achieve the state's water conservation plan. Commissioner Guzman Aceves pointed out that some agencies opposed the request for contributions to the state water plan and the Commissioner noted this was an example of a fragmented model with limited or no central regulatory oversight not working. This example demonstrates that it may not be realistic to expect individual LSEs to regularly take actions that benefit the state at their individual customers' expense.

Near the end of the panel *Core Principle: Decarbonization: Scaling Infrastructure* (*Decarbonization* Panel), Commissioner Peterman asked consumer advocacy groups and other panelists whether and how they engage in CCA policy-setting or ratemaking decisions (e.g., whether they attend and participate in CCA board meetings). Panelists from the Greenlining Institute, the California Efficiency + Demand Management Council, and the American Wind Energy Association indicated there is some informal engagement, that engagement can be challenging, and that significant, formal engagement between CCAs and advocacy groups does not yet occur. Also during the *Decarbonization* panel, Commissioner Peterman cited the

Affordability Rulemaking as another example where it is difficult to implement statewide policies in a fragmented procurement model, as CCAs and ESPs are not required to participate because the Commission does not have ratemaking authority for CCA or DA service.

These and other examples demonstrate how a fragmented procurement model can hinder the Commission's ability to effectively implement state energy policies. As the Commission and other stakeholders identify potential solutions to the challenges identified in the Draft Green Book and at the En Banc, they should seek to determine whether it is appropriate for the Commission to have broader regulatory authority over other LSEs, or whether the issues can be adequately addressed through centralized implementation of reliability, decarbonization, and affordability policies through the IOUs in a manner that ensures that all benefitting customers remain equitably responsible for the costs.

C. IOU Rate Reform is Essential to Enabling Customer Choice to Contribute to Achievement of State Energy Policy Goals

The current rate structures the Commission has required of the IOUs create unnecessary tensions among the Core Principles. This was highlighted in multiple comments at the En Banc. During the *Affordability* Panel, Dr. Severin Borenstein explained that California currently uses incentives to get actors to change their behavior in ways that do not reduce costs on the system. As an example, he explained that the IOUs' generation rates do not reflect the actual cost of energy, which incents some customers to bypass those rates by installing rooftop solar even though it is not cost-effective compared to large-scale solar generation. During the *Decarbonization* Panel, CEC Commissioner McAllister posed the question of how California can achieve more demand response. He noted that rates are a key element in getting more customers to adopt demand response, but that it must be done in a way that does not create new inequities or perpetuate current inequities. SCE reiterates its recommendation from its comments on the

Draft Green Book that the Commission pursue a modernized rate architecture based on the four key principles of transparency, equity, sustainability, and access.¹

D. Customer Choices Should be Based on Accurate Information

During the *Affordability* Panel, Commissioner Randolph asked the panelists for their thoughts on consumer protections and whether the state has an adequate framework to address false or misleading statements that affect customer choices. In response, Dr. Borenstein pointed out that it is concerning that IOUs are not able to present information and their views on CCA formation. SCE agrees. When government officials make decisions on CCA formation, those decisions should be based on all available information and viewpoints. A regulatory framework that constrains the IOUs from providing customers with timely, accurate, and meaningful information or from commenting on public issues relevant to customer choice, will fail to develop an engaged, knowledgeable, and empowered customer base that is key to effective customer choice. This is precisely why SCE and the other IOUs filed a Petition for Modification (PFM) of Commission Decision 12-12-036 to remove the lobbying restrictions from the CCA Code of Conduct.² SCE recommends the Commission expeditiously adopt the modifications in the PFM to make sure localities considering forming CCAs have a full and balanced understanding of the benefits, risks, implications, and costs of such a decision.

Also during the *Affordability* Panel, Mr. Freedman of TURN made the point that the Commission needs to implement uniform consumer protections that include appropriate disclosures and education to help customers understand the choices available to them. He cited two examples to support this point. First, he noted that there are retail providers that make bold claims about the greenhouse gas (GHG) emissions of their energy supply portfolio that are not completely valid (particularly in terms of new or incremental GHG savings). For the second

¹ Comments of Southern California Edison Company on the Draft Green Book, p. 13.

² See the Joint IOU's Petition for Modification (PFM) of Decision (D.) 12-12-036 (the decision that adopted the CCA Code of Conduct), filed January 30, 2018 in R.12-12-009. The PFM raises First Amendment concerns with the Code's restrictions on IOUs' ability to speak on CCA matters, and seeks the removal of the Code's lobbying restrictions on IOUs.

example, Mr. Freedman noted that many customers choose to adopt distributed energy resources, such as rooftop solar panels, based on cost savings that rely on calculations provided by the vendor selling the product. He asserted that these cost savings estimates may not be reliable. SCE agrees with TURN that consumer protections should aim to prevent energy providers from making inaccurate or misleading claims to customers. While the Commission does not have jurisdiction over the advertising claims of solar panel vendors, the Commission can seek to implement educational efforts for consumers when appropriate to ensure consumers have an objective alternative source of information.

IV. CONCLUSION

SCE appreciates the opportunity to submit these comments on the En Banc and looks forward to working with the Commission and other stakeholders to develop an action plan for addressing the tremendous challenges identified in the Draft Green Book.